

Political Risk Update: May 31, 2022

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Sri Lanka: Growing pressure on premier to deliver economic recovery

Event

President Gotabaya Rajapaksa swore in Prime Minister Ranil Wickremesinghe as minister of finance, economic stability and national policies on May 25. making him both prime minister and finance minister.

Outlook

Although many Sri Lankans were probably sceptical about Wickremesinghe's appointment as prime minister, some at least will appreciate his efforts to communicate his crisis management strategy, and his candour about the hardship that still lies ahead. Nevertheless, pressure on the premier to start turning around the situation will increase now that he has assumed personal responsibility for the finance portfolio. Sri Lanka is in talks with friendly countries and the IMF over securing financial assistance.

Analysis

Wickremesinghe became prime minister on May 12, three days after his brother Mahinda Rajapaksa resigned from the post. The new cabinet has taken shape since then, but appointment of a finance minister – currently the most important ministerial portfolio given the scale of the country's economic crisis – remained pending before Wickremesinghe took it himself. On May 24, Wickremesinghe promised an interim budget within six weeks. He suggested that he would cut down on infrastructure projects and direct funds into a two-year economic relief scheme. Annual consumer inflation rose to a record-high 33.8% in April from 21.5% in March; Wickremesinghe says it may in the coming months exceed 40%.

EU: New sanctions regime will encounter hurdles

Event

On May 25, the European Commission (EC) proposed making the violation of sanctions a crime under EU law, and strengthening common rules on asset recovery and confiscation.

Outlook

While the Ukraine conflict has spurred momentum for reform in an area of EU policy where common ground has previously been difficult to achieve, problems still remain. EU countries will have to agree on the proposal unanimously, and harmonising legal systems will not be easy. Senior EU sources have warned that it might take years of litigation "before a single euro will be seized", and cautioned against raising expectations that effect will be immediate.

Analysis

Since the start of the conflict in Ukraine, EU member states have frozen more than EUR22bn (USD24bn) in Russian central bank assets and EUR9.9bn in oligarchs' assets in five separate sanction packages. A sixth package that would include an oil embargo has been blocked due to Hungarian opposition. However, diverging criminal law across the EU can lead to impunity; hence, the call for harmonisation. This move follows appeals by Ukraine and sympathetic EU member states for seized Russian assets to be used to pay for the reconstruction of Ukraine.

Germany: Ukraine conflict challenges Berlin's climate commitments

Event

Germany's commitment to tackling climate change is now under threat from the need to guarantee energy security.

Outlook

Germany cannot depend on renewables alone to meet its energy demands in the short-to-medium term, due to concerns about reliability, cost, and rollout capacity as well as political and industrial opposition. Securing alternative supplies of gas cannot be achieved quickly. If Russia cuts the supply of gas this winter, as it has already done to three other EU states, Germany's commitment to decarbonisation and EU unity will be sorely tested.

Analysis

Germany's energy security has been particularly challenged by the decision to cut reliance on Russian fossil fuels. The government is committed to building new liquefied natural gas (LNG) terminals, buying gas from new partners and boosting investment in renewables. However, the role that Russian gas was meant to play as a transition fuel and vital industrial input does cast doubt on the country's ability to meet its decarbonisation goals. Germany's capacity to build more than a few LNG terminals will be limited due to political opposition and, unlike other EU countries, Germany is highly unlikely to reverse its nuclear phase-out policy. At present, fossil fuels still make up 80% of the country's total primary energy supply, and challenges associated with balancing climate objectives and economic needs could raise tensions within the coalition government.

Mexico: Military's expanding remit will raise foreign trade concerns

Event

On May 26, President Andres Manuel Lopez Obrador (AMLO) defended a decision that further extends military control of customs activities, framing it as an anti-corruption measure and claiming that customs collection had already increased under the military's watch.

Outlook

Mexico's military is subordinate to civilian authorities, but its seemingly ever-expanding remit will raise concerns about transparency, accountability and democracy. It may also raise questions regarding the military's ability to maintain effectiveness in traditional security roles, while taking on so many other responsibilities.

Analysis

While responsibility for most land and maritime customs facilities had already been handed to the defence ministry and the navy, a decree published in the Official Gazette of the Federation on May 24 grants them increased control over inspections. It also expands their remit in numerous other areas, including customs personnel training, and allows them to collaborate with foreign trade authorities, and participate "as Responsible Units in financial vehicles, such as public trusts". Military influence over civilian matters has expanded dramatically under AMLO, who has put the armed forces in charge of managing migration, multiple construction projects, and flagship infrastructure projects such as the Felipe Angeles International Airport and the Maya Train.

Colombia: Hernandez threatens Petro's hopes for presidential election

Event

Leftist Gustavo Petro won Colombia's presidential election on May 29 but fell short of the 50% required for an outright victory and so faces a June 19 run-off against his closest challenger, the self-funded, independent populist Rodolfo Hernandez.

Outlook

Conservative Federico Gutierrez came third and his anti-Petro support base will probably back Hernandez en-masse, while backing from centrists would boost the independent's support further. His unclear anti-establishment positioning will make him difficult to challenge, necessitating a strategic rethink on Petro's part.

Analysis

Petro took 40% of the vote, finishing well ahead of Hernandez, who took 28% following a late surge in support. Conservative Federico Gutierrez, who routinely polled second before the election, finished third with 24%. The results are a damning indictment of the political status quo (which Gutierrez was seen to represent), demonstrating both a demand for change among voters and widespread disagreement over what that change should entail. Petro, a former M-19

guerrilla, has promised economic reform and new approaches to security, trade and foreign relations. Hernandez has run predominantly on an anti-corruption platform and is seen as a more conservative alternative to Petro.

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